

# MOVING UP THE INCOME LADDER? WHAT ARE THE OBSTACLES: A CASE STUDY OF INDIGENOUS PEOPLE IN LATIN AMERICA

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## *Abstract*

*Latin America is traditionally the region with the highest income and wealth inequality and the indigenous people are the most socially excluded group of the society. The obstacles they face on their way to becoming middle class are numerous. Markets sometimes operate in an anti-poor way, e.g. capital market imperfections. Next, many Latin American countries are agrarian societies with high land inequality. Also, indigenous people continue to have lower health and education indicators. Possible solutions should include state intervention in providing easier access to credit for the indigenous, land reform, health and education systems that are more universal and better targeting of social transfers.*

*Key Words: indigenous people, poverty, Latin America.*

## **1 Introduction**

It is estimated that Latin America has a population of about 40 million indigenous people, or 10% of the total. Indigenous people constitute a majority in Bolivia, 54% of the total, and a significant proportion of the total population in Ecuador, Guatemala, Mexico, and Peru (Table 1). Latin America is the region with the highest inequality in the world and indigenous people have historically been the poorest and most excluded social segment in Latin America.

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*Table 1 Indigenous population in Latin America*

Country	% of population
Bolivia	54
Ecuador	40
Guatemala	42
Mexico	9
Peru	25

*Source: Psacharopoulos and Patrinos (1994).*

There has been little interest in analyzing the problems of indigenous people until recently. The persistent neglect of the wishes of indigenous peoples led to them mobilizing and fighting for their rights. One of more notable examples is the struggle by Zapatista National Liberation Army (EZLN), which started on New Year's Day in 1994 following Mexico's entry into the North American Free Trade Agreement (NAFTA) with the United States and Canada. EZLN also led tens of thousands of indigenous people on their march throughout Mexico, which ended in Mexico City on March 11 2001. Eventually, their struggle caught the attention of international institutions. The United Nations declared an International Decade of the World's Indigenous People, 1995-2004, and World Bank staff performed a series of empirical analyses of the living conditions of indigenous peoples<sup>1</sup>.

One of the possible reasons why there was so little interest in researching into the economic misfortunes of indigenous peoples is the lack of clear definition of the term indigenous people. Different states adopt different criteria, depending on special characteristics and circumstances, and many a country does not even make an effort to define its indigenous population. Some countries willfully underestimate the number of indigenous people, in an effort to minimize their political importance and deny them access to land. Other states do not like the term 'people' because it entails the idea of collective rights (Minority Rights, 2004). Also, the term indigenous is often used interchangeably with "native", "aboriginal", "original" and "first nations" (Stavenhagen, 2004). Greater effort into giving definition of indigenous people has been put in at an international level. International Labour Organization (ILO) Convention 169 and the UN Special Rapporteur Jose Martinez Cobo emphasize the following characteristics of indigenous identity:<sup>2</sup>

- historical continuity with pre-colonial societies
- strong links to territories
- distinct social, economic or political systems

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<sup>1</sup> See Psacharopoulos and Patrinos (1994), Hall and Patrinos (2004).

<sup>2</sup> The full UN report definition states that "Indigenous communities, peoples and nations are those which, having a historical continuity with pre-invasion and pre-colonial societies that developed on their territories, consider themselves distinct from other sectors of the societies now prevailing in those territories, or parts of them. They form at present non-dominant sectors of society and are determined to preserve, develop and transmit to future generations their ancestral territories, and their ethnic identity, as the basis of their continued existence as peoples, in accordance with their own cultural patterns, social institutions and legal systems" (Stavenhagen, 2004:33).

- distinct language, culture and beliefs
- form non-dominant sectors of society
- identify themselves as different from the national society (Minority rights, 2004)

Instead of one definition, three approaches are used to identify indigenous people – language spoken, self-perception or self-identification and geographic concentration. Different approaches are used in different countries, e.g. the language-spoken approach is used in Peru and Bolivia, self-perception is used in Ecuador and geographic concentration is used in Mexico, where the indigenous population is concentrated in specific territories (Psacharopoulos and Patrinos, 1994).

Probably an even bigger problem is in finding an adequate measure of poverty for indigenous people. Some indigenous people do not find themselves poor and emphasize other aspects such as cultural and spiritual riches (Minority rights, 2004). In essence, the problem comes down to applying western (foreign) standards for assessing the welfare of societies that do not share the same, Western, values. This is the field of study where the biggest improvements could be made. It is necessary to include indigenous people in the process of constructing objective poverty measures that would be compatible with the values of indigenous people. Another option is to use self-perception as a measure of poverty.

Since these new measures of poverty still need to be introduced in the research of poverty among indigenous people I will use more conventional definition of poverty as income poverty, if not stated otherwise.

The paper is organized as follows. In the next section I will discuss the extent of poverty in Latin America. Next, I will analyze the obstacles the poor face in their efforts to move up the income ladder. The obstacles will be grouped in economic channels, education and health, culture, and political channels. In the concluding section I will give some proposals about how the social and economic position of the indigenous people might be improved.

## **2 Poverty in Latin America**

Latin America has unusually high and severe poverty rates for its level of development. Over 12 percent of the total population is considered to be poor and the total number of the poor in 1998 was more than 60 million, the poverty gap index being 3.97. By contrast, the percentage of the poor in the Middle East and in Eastern Europe & Central Asia (EE & CA), on the other is 2.11 and 3.75 respectively, while the poverty gap was only 0.39 and 0.86, respectively (Chen and Ravallion, 2001).

Even though poverty is a widespread phenomenon in Latin America, indigenous people are disproportionately represented among the poor (Table 2). Also, poverty rates for indigenous people fall more slowly than for the non-indigenous population (Table 3). Finally, in all of the selected countries, the indigenous people are more likely to be poor (Table 4). But the probability of being poor in a household where the head is unemployed

in Bolivia is increased by 45%, which suggests that lack of employment is a more important variable in explaining poverty in Bolivia than being indigenous.

Even though indigenous people participate more in the labor force and a higher percentage are employed, they are underpaid compared to the non-indigenous population. On average, they earn less than two thirds of non-indigenous earnings. Earnings differ even in the same sector. In Guatemala and Peru, indigenous people employed in agriculture earn only 55% and less than one third of non-indigenous income respectively. A large portion of the wage differential is not explained by income-generating characteristics (Table 5). A possible explanation for the unexplained portion is labor market discrimination. Another possible explanation is that, to some extent, indigenous people receive lower earnings and have a higher incidence of poverty because they are locked into the secondary sector of the economy (Psacharopoulos and Patrinos, 1994).

*Table 2 Poverty in Latin America*

Country	Total population	Indigenous	Non-indigenous
Bolivia	>50	64.3	48.1
Guatemala	66 (38 <sup>a</sup> )	86.6 (61 <sup>a</sup> )	53.9
Mexico	—	80.6	17.9
Peru	—	79 (>50 <sup>a</sup> )	49.7

<sup>a</sup> percentage of people living in extreme poverty

Source: Psacharopoulos and Patrinos (1994).

*Table 3 Changes in poverty rates for indigenous and non-indigenous population in selected countries*

Country	Non-indigenous	Indigenous
Bolivia (1997-2002)	-8	change less than 0.1 percent
Ecuador (1994-2002)	+14	change less than 0.1 percent
Guatemala (1989-2000)	-25	-15
Mexico (1992-2002)	-5	change less than 0.1 percent
Peru (1994-2000)	+3	change less than 0.1 percent

Source: Hall and Patrinos (2005)

Also, Latin America is the region with the highest inequality in the world, a condition that has stayed basically unchanged in the last 30 years (Table 6). “In the 1990s in Latin America, the top 5% of the population received 25% of total income on average, while the bottom 30% got only 7.5%. In Southeast Asia the top 5% received only 16% of income while the bottom 30% got 12.2%; the comparable figures for Africa are 24% and 10.1% respectively. In the developed countries the top 5% got only 13% of the total income while the poorest 30% got 12.7%” (ECLAC, 2001:18).

*Table 4 Percent increase in probability of being poor if you are indigenous*

Country	Early 1990s	Latest Available Year
Bolivia	16	13
Ecuador	—	16
Guatemala	11	14
Mexico	25	30
Peru	—	11

*Source: Hall and Patrinos (2005)*

*Table 5 Unexplained portion of Earnings Distribution*

Country	Early 1990s	Latest Available Year
Bolivia (urban only)	28	26
Ecuador	33	45
Guatemala	52	42
Mexico	48	42
Peru	50	58

*Source: Hall and Patrinos (2005)*

*Table 6 Inequality in Different Regions*

Region	1960s	1970s	1980s	1990s
East Asia and Pacific	41.4	41.9	40.5	38.0
Eastern Europe	25.1	24.6	25.0	28.9
Latin America	53.2	49.1	49.7	49.3
Middle East and Pacific	37.4	39.9	38.7	38.1
OECD and High Income Countries	35.0	34.8	33.2	33.7
Sub-Saharan Africa	49.9	48.2	43.5	46.9
South Asia	36.2	33.9	35.0	31.9

*Source : ECLAC (2001)*

Results are similar if we use social indicators as a measure of poverty instead of income. Even though Latin America as a region performs better or is at least at the same level as most other regions in the majority of health and education indicators and is much above world average, its performance is less admirable when its level of development of taken into account. Table 7 and Table 8 show that literacy level and health indicators are roughly on the same level with the East Asia and CEES/CIS, regardless of their two-times lower GNI per capita.

*Table 7 Education indicators across regions in 2002.*

Region	GNI per capita (in US\$)	Literate adults in total population (%) <sup>a</sup>	Net primary school enrolment (%)
CEES/CIS and Baltic States	1742	96	86
East Asia and Pacific	1232	81	92
Latin America and Caribbean	3362	85	94
Middle East and North Africa	1359	53	78
Sub-Saharan Africa	460	50	59
South Asia	461	47	74
World	5073	70	81

<sup>a</sup> Data for the year 2000.

Source: *World Development Indicators*.

*Table 8 Health indicators and life expectancy in different regions in 2002.*

Region	Life expectancy	Infant mortality	Under-5 mortality
CEES/CIS and Baltic States	69	33	41
East Asia and Pacific	69	33	43
Latin America and Caribbean	70	27	36
Middle East and North Africa	67	46	58
Sub-Saharan Africa	46	106	174
South Asia	63	70	97
World	63	56	82

Source: *World Development Indicators*.

In addition, even though Latin America performs better than East Asia, for example, in adult literacy rates and primary school enrolment rates, a few things must be considered. First, East Asia started from a very low level of development, so it is likely that it has a much higher percentage of old people that are illiterate. Second, primary school enrolment rate does not show the quality of education or the number of finished grades. In fact, East and South-East Asian countries have tried to improve the bottom tail of the distribution and put the emphasis on the achievement of universal secondary education. Latin American countries, on the other hand, let most pupils leave school after primary level and concentrated on expanding university coverage (ECLAC, 2001). Thus, it could be concluded from Table 7 and Table 8 that Latin America is underperforming in health and education indicators when its development level is taken into consideration.

Again, indigenous people have lower health and education indicators than non-indigenous. Indigenous people are lagging behind the non-indigenous in literacy rates (Table 9), schooling and training in all of the selected countries. In Bolivia, the indigenous pop-

ulation has on average 3 years of schooling fewer than the non-indigenous, the gap for indigenous women being even bigger. Indigenous people have on average only 1.3 years of schooling and 40% of them are illiterate (Psacharopoulos and Patrinos, 1994). In Peru, 40% of non-indigenous children are enrolled in school, compared to 36% for indigenous. In addition, non-indigenous children stay longer in school. Thus, they have a 20% higher education than indigenous children (Davis, 2003). The problems of indigenous people are even more severe in Mexico where the education gap between indigenous and non-indigenous widens with age, peaking at 17 years, where the non-indigenous enrollment rate is approximately double the rate for indigenous people (Psacharopoulos and Patrinos, 1994).

*Table 9 Indigenous languages and literacy*

Country	Percentage of illiterate population in population subgroups	
	Indigenous	Non-indigenous
Bolivia	24	14
Ecuador	26	14
Guatemala	79	40
Mexico	63	42
Peru	50	22

*Source: Psacharopoulos and Patrinos (1994).*

The story does not get any better for the indigenous people if we look at health instead of education indices. Sixty four per cent of the rural population in Bolivia, where indigenous people are mostly concentrated, and 75% in Guatemala are without access to health services. Next, indigenous people frequently have no access to drinking water. In Peru, only 46% of indigenous homes have public water access, while 31% use wells and 15% use a river as a source of water. Similarly, 86% of the rural population in Bolivia is without adequate drinking water. In addition, only 21% of indigenous homes in Peru have public waste disposal (The Hunger Project, 2004) and many indigenous households are forced to use health-damaging resources. For example, almost half of the indigenous households rely on kerosene as a source of light while 88% of Spanish speakers use electricity (Psacharopoulos and Patrinos, 1994)<sup>3</sup>.

### 3 Obstacles to moving up the income ladder

In many societies there are almost clear-cut groups that traditionally represent the poorest segments of the society – African-Americans in the US, Gypsies in Europe, or indigenous people in Latin America. The persistence of poverty among these groups might suggest that there are ways in which parents' poverty is transmitted to their children. Empirical evidence appears to support this thesis. Blau and Graham (1990) discovered wealth

<sup>3</sup> Kerosene can be bad for health if used intensively.

discrepancy between young black and white families in the mid 1970s, with young black families holding 18% less wealth than young white families. This discrepancy in wealth has a modest effect on the difference in black-white early employment careers in the United States (Rendon, 2003).<sup>4</sup> Sawhill (2000) suggests that one of the possible linkages is genetic heritage. Well-placed parents can pass on advantages to their children without even trying - they simply have good genes. But there is a big dispute concerning what IQ, the most common measure of intelligence, actually measures. IQ tests show average IQ gains of around 20 points in some countries over a period of one generation. This would imply that we should be experiencing a new renaissance, which is not the case. Thus it is quite certain that IQ measures something other than intelligence (Flynn, 2000). Other ways through which the initial position can have an effect on future results, and I will largely disregard genetic inheritance, are through economic channels, education, health, culture and political channels. An additional problem is posed by the interconnection between these variables. For example, one needs to be healthy in order to get good education. Higher education, on the other hand, leads to better awareness of the importance of health and therefore better health.

### *Economic channels*

Family income matters. It enables families to move to better neighborhoods and to purchase the necessities. In addition, wealth enables better parenting by relieving the stresses of daily living which often produces sub-optimal parenting. To put it differently, rich parents provide their children with an appropriate mix of warmth and discipline, emotional security, intellectual stimulation, and coaching about how to relate to the wider world (Sawhill, 2000).

High inequality can reinforce itself and hurt the chances of the poor getting themselves out of poverty. One of the ways in which inequality hurts the chances of the poor of moving out of poverty is through capital market imperfections. Capital market imperfections cause the poor to have restrained access to credits. More precisely, capital market imperfections cause the poor to have higher borrowing rates (Galor and Zeria, 1993) or worse collateral demands (Banerjee and Newman, 1993), which traps them in a circle of low profits and high debt repayments. Evidence from Ecuador suggests that access to credit is the single most important policy intervention in raising productivity and lifting small-scale, poor and mostly indigenous farmers from poverty (World Bank, 2004). And still, banks are unwilling to work with small creditors, largely for technical reasons (Korovkin, 1997). Further evidence from Nicaragua shows additional obstacles to indigenous peoples in obtaining bank loans. Banks tend to be suspicious of:

- would-be borrowers from rural areas, often perceived as illiterate or semi-literate
- the unfamiliar character of the investments sought by indigenous applicants for credit
- the lack of collateral in the form of alienable land (Minority Rights, 2004).

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<sup>4</sup> Lack of research into indigenous people is a constant problem for the determination of the channels through which intergenerational transmission of poverty occurs. Thus, in cases where there is no research on the indigenous population or I was unable to find it, I will use literature that is accessible to me and which mostly deals with the US.



Another possible reason for the persistence of the high inequality pattern is the concentration of ownership of assets (Table 10).<sup>5</sup> Most of the poor live in rural areas and are dependent on their land. Latin America has the highest inequality of land ownership in the world. Although there is positive correlation between agricultural productivity and the land Gini index, it does not mean that farms are more productive because of high land concentration.<sup>6</sup> It is more likely that the big landowners can acquire the best land and that they can ensure that government provides them services that will further increase the productivity of their land (World Bank, 2004).<sup>7</sup>

Some countries do not recognize indigenous peoples' collective right to their ancestors' land. In other cases (e.g. Chile), states recognize their rights to own land but allow private ownership of subsoil resources and water on it. In the collision between two laws indigenous people often end up worse-off. For example, the Kugapakori communities have been threatened by the oil workers in Southeastern Peru and forced to move deeper into the Amazon jungle (Stavenhagen, 2004).

Even if we disregard high inequality, there are other economic obstacles that the poor face on their way out of poverty. First, the matching story. Increasing returns make capital more productive in a capital-intensive environment and skills are more productive in skills-abundant countries. The ultimate moral of the matching story is that countries need to be educated and rich in order to attract capital – both human and physical. The empirical evidence supports this story. Capital investment circulates among OECD countries and rarely goes to Africa, where it should go according to the decreasing returns story (World Bank, 2001). If countries are not capital-abundant and high-skilled, it is likely that they will not become so. In other words, economies of scale and agglomeration lead to the creation of center – clusters, and periphery, where the center drains all resources from the periphery, leaving current and future generations in those areas in economic hardship<sup>8</sup>. Empirical evidence supports this thesis and shows that poverty is highly geographically concentrated. The indigenous are more concentrated in rural areas, where income poverty is more common. In Ecuador, poverty in rural areas is 76%, compared to 40% in urban areas (World Bank, 2003a). Next, poverty is concentrated in the predominantly indigenous regions. Research from Mexico shows that in municipalities with less than 10% of indigenous people, the poverty headcount index is 18% compared to 46 and over 80 percent in municipalities with a share of indigenous population between 10 and 40 percent and more than 70 percent, respectively. In fact, living in municipalities with more than 50 percent of indigenous population increases the likelihood of being poor by 25 percent (Psacharopoulos and Patrinos, 1994). Similarly, in areas with a majority indigenous population in Ecuador, the income poverty rate is approximately 85% (World Bank, 2003a). The situation in Guatemala is similar. The highest percentage of those living in poverty in Guatemala (91.7 per cent) is seen in a region with a high Mayan population, while the percentage of people in poverty in metropolitan areas, with an only 22 percent Mayan popula-

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<sup>5</sup> There is evidence that assets and income inequality are correlated (World Bank, 2003).

<sup>6</sup> Land Gini is a measure of inequality in ownership of land. The Index can be in range from zero to 1 or 100. A higher value of the index represents greater inequality.

<sup>7</sup> The impact of rich elites on the creation of institutions is discussed in more detail later in the text.

<sup>8</sup> Some of the more famous examples of clusters are Silicon Valley in California and Bangalore in India.

tion, is only 64.3 percent (Minority rights, 2004). Even in rich countries like the United States poverty is highly concentrated. The problematic areas and social groups are inner city blacks, rural blacks in the Mississippi delta, native Americans in the West, Hispanics in the Southwest and whites in Southeastern Kentucky (Easterly, 2002).

*Table 10 Land inequality in Latin America*

Latin America	Land Gini
Argentina	85.6
Bolivia	76.8
Brazil	84.1
Colombia	82.9
Costa Rica	80.6
Ecuador	80.9
Guatemala	85.3
Honduras	76.5
Jamaica	80.3
Mexico	60.7
Panama	80.4
Peru	92.3
Paraguay	85.7
Uruguay	81.3
Venezuela	91.7
<i>Other Developing Countries</i>	
Egypt	54.9
Indonesia	55.5
India	61.4
Jordan	67.7
Kenya	75
South Korea	33.9
Malaysia	64
Pakistan	55.6
Philippines	56
Senegal	49.3
Thailand	42.6
Tunisia	64.6
Uganda	54.9
<i>Developed Countries</i>	
Australia	85.3
Canada	55.2
Spain	84.5
Finland	49.4
France	54.4
Japan	43.2
Norway	39.1
United States	73.1

*Source: World Bank (2004)*

Furthermore, economic hardship can force children to withdraw from school in order to work. The result is reduced skills and income-generating characteristics, and therefore lower likelihood of escaping poverty. Evidence shows that indigenous children are born with socioeconomic disadvantages and are unable to keep up with their non-indigenous peers. In Ecuador, for example, 79% of indigenous children live in poverty compared to 68% of Afro-Ecuadorian and 61% of White-Mestizo children (World Bank, 2004). Evidence from Peru suggests that the children that are most likely to work are those of less-educated parents, whose fathers are employed as farmers and whose mothers are not in the labor force (World Bank, 2003). Since poverty is more concentrated among the indigenous people, child income in Latin America plays a greater role in total family income in indigenous areas than in non-indigenous areas. The result is a higher dropout rate and higher probability of repeating grades for indigenous children. The reason why poor children drop out of school is either the direct cost of attending school or the opportunity cost of school attendance (World Bank, 2003).

Finally, markets give more incentive to the rich to invest in education – the rich have higher marginal benefits and lower marginal costs of investment in education than the poor. Behrman, Birdsall and Szekely (2000:141-144) outline the following reasons:

- Richer-income households may invest directly in children's education at home and through tutoring, or indirectly by improving their health and nutrition
- Children's genetic endowments may interact with schooling investments in producing education
- Richer households may make complementary investment in searching for a job and have contacts that affect children's search for a job after completing schooling. If markets for financing such investments are imperfect and the costs are lower for higher-income households with more educated parents, the marginal private benefits are again greater for rich households
- Higher-income households may have better information. Therefore, they face less uncertainty regarding schooling investment decisions
- Higher-income households with better-educated parents may have better means of dealing with bad results – e.g. bad performance on admission exams or regular exams, through their connections.
- Higher-income households with better educated parents might have lower discount rates and therefore invest more generally, including in schooling, than lower income households with less-educated parents
- Public policies may favor higher-income households in response to their greater economic and political power
- Richer households can smooth external shocks by borrowing more easily. Therefore, their children will have a greater chance of getting through the educational system without interruptions. Children of poorer parents might have to drop out.

### *Education and Health*

Back in the 1960s, Galbraith (1985) outlined human capital as the most important factor of production in modern economies (even more important than capital) and people who possess it – the managers, as the new ruling class. The human capital theory suggests that health and education are the prime variables in individuals' endowments.

The evidence shows that the poor have restricted access to education. The educational level of parents is positively correlated with the educational level of children. Mothers with secondary school or higher education tend to have children with 3.5 years more schooling than mothers with no education (The Hunger Project, 2004). Also, the World Bank (2003) finds a positive correlation between fathers' and children's education. The causes of transgenerational transfer of low education are unknown but it is likely that the reasons are that the lower-class children inherit attitudes and aptitudes less suited for culture and education (Bourdieu and Passeron, 1964). Next, racial and ethnic minorities have lower abilities to convert education into earnings. Finally, lower-educated parents may lack the funding to send their children to school or might underestimate the value of education (World Bank, 2003). Thus, it is difficult for indigenous children to obtain the same level of education as non-indigenous children, since in Peru, for example, only 40 percent of indigenous heads of households have education in excess of primary school and only 6 percent have above secondary level of education. In contrast, 41 percent of Spanish speaking heads have some secondary school education and 22 percent have some post-secondary school education (Psacharopoulos and Patrinos, 1994).

Reasons for the schooling gap can be traced back in history. None of the Latin American countries made major investment in primary schooling until national governments provided funds. In North America, on the other hand, local governments were willing to take on responsibility for primary education. The reason for the depressed investment in education is the enormous inequality in Latin America. The linkage is first that in settings where private schooling was predominant, greater inequality reduced the number of school-attending children. Second, greater inequality is likely to exacerbate the collective-action problems associated with the establishment of funds for universal public schools, either because the distribution of benefits across the population was quite different from the incidence of taxes or simply because in societies with vast inequality it is difficult to reach a consensus (ECLAC, 2001).

Furthermore, Li et al. (1998) find that it is especially difficult for the poor to get credit for investment in human capital. The poor face barriers in financing their education because of capital market imperfections. Education increases future earnings, but future earnings cannot be used as collateral. Higher education has become increasingly important in determining success, and because of its costs and fund raising difficulties not everyone is guaranteed access to this level of education. In the United States, in the 2001-2002 school year 400 000 college-qualified high school graduates from low and middle income families did not enroll in a four year college, and 168 000 did not enroll in any college at all (Demos, 2004). In fact, it is precisely at this level of education that family resources become increasingly important (Sawhill, 2000). The implication is that initial assets deter-

mine a person's ability to finance high-return investment (e.g. education) and productive potential in general (Birdsall and Graham, 2000).

An additional problem for the poor is the quality of schools they go to. Better teachers tend to stay in major cities, leaving most of the rural poor, where most of the indigenous poor in Latin America live, with often less-qualified teachers. Furthermore, many teachers are hard to find in the classroom at all. A study in Ecuador showed that teachers spend only 55-60% of their working time in the classroom, while they could not be traced for more than 15% of their working time (World Bank, 2004). Evidence from all five countries with a significant indigenous population shows that indigenous children have lower scores on both math and reading tests and dropout, repetition and failure rates are higher in indigenous schools. Lower quality of education might explain why the average earnings gain for an additional year of schooling is higher for non-indigenous population than for the indigenous in Mexico, Bolivia, Guatemala and Ecuador (Hall and Patrinos, 2005). Even if the poor go to the same schools as the rich do, poor-performing schools disproportionately hurt the poor. The reason is that students from more advantaged backgrounds have alternative sources of support and instruction, such as their family or community (Sawhill, 2000).

Positive educational experience comes from Guatemala with the introduction of bilingual schools. Students of bilingual programs in Guatemala have higher attendance and promotion rates, and lower repetition and dropout rates. They also score higher on all subject matters, including Spanish (Hall and Patrinos, 2005). Still, bilingual schools have their difficulties. Firstly, many indigenous languages lack their own alphabets and do not have a written tradition. Second, the formal teaching of second language requires special training and pedagogical skills which indigenous teachers often lack. Finally, the preparation of textbooks and teaching materials in indigenous languages usually lags behind those in the official language in areas where the national or official language is taught exclusively (Stavenhagen, 2004).

In addition, Ahlburg (1998:268) finds the intergenerational transmission of health. He concludes: "individuals whose parents were in poor health or who died early are likely to form an overly pessimistic estimate of their own morbidity and mortality and to underinvest in human capital, while those with healthy and long-lived forebears may do the opposite. Such behavior would reinforce intergenerational transmission of earnings and income". Poverty and high disparity in income lowers the health not only of the individual but of the society as a whole. The linkage probably comes from the lower social cohesion and social capital that societies with higher inequality have, which makes them underinvest in public goods (Shulman, 2003). People must be healthy in order to work properly or educate themselves. But, in order to stay healthy, people must have good health insurance and a good standard of living, which comes with high income. Since indigenous people generally have low incomes, they are more likely to become ill than non-indigenous and are less likely to consult physician. Even though the cost of hospitals and medicine is lower for indigenous people, probably because of their lower income, less than 57% of indigenous people purchase medicine for their illness compared to 81% of the non-indigenous population. This is probably the reason why the proportion of indigenous people hospitalized is twice as high as that of Spanish-speakers (Psacharopoulos and Patrinos,

1994). Thus, the poor are stuck in a vicious cycle of lack of money - bad health and lack of education - decreasing income-generating abilities - low income in the future.

As a result of lower education and worse health, indigenous people lag in skills in Latin America. The difference between Aymara Indian<sup>9</sup> and Spanish levels of education and almost the entire jobs gap is explained by class background (Kelley, 1988). In other words, according to Kelley, after the 1952 revolution in Bolivia the indigenous people have managed to eliminate labor market discrimination - individuals with the same income generating abilities are going to be rewarded the same.<sup>10</sup> Still, they stayed overrepresented among the poor because of the fact that indigenous people did not have the same income-generating abilities as the Spanish speaking population. The indigenous people were trapped in vicious cycle of poverty - since they are poor they cannot afford good education and health care, which seriously damages their earning-abilities, causing them to earn less and become working poor.

### *Culture*

It is very difficult to define culture and one can say that there are as many definitions of culture as there are authors. But for the purpose of this paper, I believe the simplest textbook definition will do. "Culture may be defined as the beliefs, values, behavior, and material objects shared by a particular people [in the same territory]" (Macionis, 1991:60). In this chapter I will discuss certain values like racial discrimination, behaviors like family reproduction and the influence of territories like neighborhoods on the perpetuation of poverty.

Minorities often suffer labor market discrimination. The results for different Latin American countries show the persistence of discrimination against the indigenous. In Guatemala and Mexico productive characteristics account for only 60% and in Peru only 40% of the earnings gap, which means that up to 40% and 60% in Peru of the earnings differential could be due to labor market discrimination (Table 5). The only possible exception is Bolivia. Kelley (1998) shows that the Bolivian revolution of 1952 managed to suppress ethnic and racial discrimination but has still failed to give indigenous people the same socio-economic position. On the other hand, Patrinos and Hall (2004) still identify 26% of the income gap that cannot be explained by income-generating characteristics, which leaves room for labor market discrimination as a possible explanation.

Furthermore, there is evidence that the poor, especially if they are members of some minorities, face housing discrimination in the US (Yinger, 2002). This can lead to formation of ghettos, East Harlem being the most famous example, which can pose a barrier to the poor's efforts to move up the income ladder. Cooper *et al.* (1994) find that the strength of the parents-children income relationship varies non-linearly with the parental neighbourhood income levels, with a higher persistence at the two tails of the distribution, that is the most affluent and the poorest areas. According to Durlauf (2002) poor communities tend to exacerbate the poverty of their members due to the following reasons:

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<sup>9</sup> The Aymara Indians are located mainly on the Bolivian and Peruvian mountains, centering about Lake Titicaca.

<sup>10</sup> Different research for Bolivia shows that if indigenous and non-indigenous working males possessed the same income-generating characteristics, the earnings gap would narrow by 72% (World Bank, 1994).

- Peer group effects – the impact of the choices of some members of a group on the preferences of others in assessing those same choices
- Role model effect – the influence of characteristics of older members of a group over the preferences of younger members. There is evidence that in households where parents had fewer work opportunities, which resulted in reduced incomes, there is increased tension in the home – drinking, insecurity, and less parental stimulation (Ivardsdotter, 2000).
- Social learning – the influences that the choices and outcomes experienced by some members of a group have on the subsequent choices of others, through the information that those choices and consequences impart
- Social complementarities – the influences that the choices of others have on the productivity of an individual's choices.

Some researchers like Oscar Lewis go as far as to claim that there is a culture of poverty (Lewis, 1986). The culture of poverty assumes that the poor share distinctive patterns of values, beliefs, and action, and exhibit a style of life that departs significantly from that of the rest of the society (Roach and Gursslin, 1967). The poor tend to save and invest less and enjoy pleasure instead. Next, they have an unreliable and poor work ethic and unstable families (Rosenfeld, 2005). Recently a different approach was introduced by Appadurai (2004). Appadurai assumes that individual desires and standards of behaviour are often defined by experience and observation. In other words, aspirations are socially determined and do not exist outside the social context, as consumer preferences are often assumed to do. Ray (2005) claims that in societies with high stratification the poor are trapped in poverty because they will lack aspirational resources to alter their situation. If the poor base their aspirations on the experience of their poor peers they will have too low aspirations and will make peace with their situation. On the other hand, if they form their aspirations with the rich (assuming that the rich are too far ahead) the poor will end up in frustration because no matter how hard they try to catch up they can't because the gap is simply too big.

Next, indigenous people are often monolingual and non-Spanish speaking. In Bolivia, more than two thirds of bilingual indigenous people are impoverished and almost three quarters of monolingual (Psacharopoulous and Patrinos, 1994). Also, poor people (mostly male) generally have higher tendency to crime. The link comes from the inability of unskilled men to play traditional male economic and social roles, including a contribution to family income (Wade, 2004). It is observed in Ecuador that husbands might stop their wives from becoming employed if that means that they will lose their role as breadwinner (World Bank, 2003a). Finally, Akerlof (1997) speaks of economics of identity, which stems from individuals' ties to particular social groups. Because leaving such groups might threaten individuals' identities, the poor might choose to give up their opportunity to escape poverty if this will threaten their position within the group. This might be a problem in indigenous communities since indigenous people have very high social capital and devotion towards the group they belong to (World Bank, 2003a).



Finally, poverty and inequality can be perpetuated by household formation. In poorer societies families tend to have more children, for whom their families often cannot provide adequately. Next, in more unequal societies, like Latin American, men may be likelier to marry women from the same social stratum and with similar education levels. In addition, poorer households tend to have more children (World Bank, 2003), which means higher schooling expenses for the family and therefore lower education and bad health for their children. The end result is lower income-generating abilities of the poor children in families with higher numbers of children.

### *Political channels*

The poor are politically weak. Even if indigenous people regroup and manage to mobilize, it is likely their parties will face fierce opposition in implementing pro-poor policies, not only from the elites but from the middle class as well. The middle class in Latin America might believe that after a decade of economic hardship under the adjustment processes it is they who deserve attention (O'Donnell, 1996). Still, O'Donnell suggests possible ways to create a political climate that is oriented more towards pro-poor policies.

- *Appeal to the fears of the privileged* – the fear of revolution, regardless of how unlikely it is for the revolution to fully succeed, can persuade the elites that they should make sacrifices to prevent everything from exploding. In addition, the rebellious regions might obtain additional resources from domestic and international resources. Still, it is likely that these resources will vanish when the rebels return to silent suffering.
- *Appeal to the enlightened self-interest of the privileged* – one can argue that elites will suffer in the long run as well if the problems of the underprivileged are not being resolved. It might be alleged that future growth will be lower if the work force lacks skills and health. Still, this argument runs into the collective action problem – why should someone sacrifice parts of his/her income for an outcome when it is impossible to be sure that the others will contribute enough to make it come about.

It is important to notice that both of these arguments appeal to the private interests of the elites. They do not take into account the possibility that eradicating poverty might have public interests that go beyond any individual interest, and perceiving poverty eradication as a public good is essential in creating and maintaining effective solidarity, which is necessary for actions that seriously tackle poverty (Tokman, 1995).

Furthermore, economic inequality translates into political inequality. What we call democracy is a mixture of one person one vote and \$1 one vote, topped by pure \$1 one vote democracy present in the World Bank and IMF.<sup>11</sup> In other words, money can bias decision-making in favour of the rich minority.<sup>12</sup> This point can be illustrated by the median voter theorem model.<sup>13</sup> The median voter theorem model claims that the larger the

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<sup>11</sup> *Demos* on Greek means people and *krateo* means to rule, so the translation would be the rule of the people.

<sup>12</sup> Notice that the word democracy does not allow any influence to anyone but people.

<sup>13</sup> Median voter theorem was developed by Alesina and Rodrik (1994), Bertola (1993) and Persson and Tabellini (1994).



difference between the average and the median voter the greater the desire for redistribution. Higher taxes lead to higher excess burden loss, loss of efficiency and lack of incentives for investments. This would lead to lower growth rates in democratic countries with high inequality. But there is no empirical evidence to suggest this model is functioning in the real world (Ferreira, 1999). In fact, many countries with higher inequality, like Brazil, have a less egalitarian tax system than countries with low inequality like Sweden.<sup>14</sup> Li et al. (1998) see the reason in the ability of the rich to prevent pro-poor policies. “Political institutions define and enforce property rights and provide the legal framework within which markets and other voluntary agreements between private agents are organized. Thus, they have a fundamental impact upon the distributions of income, capital, and political standing” (ECLAC, 2001:42). The colonial heritage in Latin America that crept into institutions, and the continued pattern of institutional change that favoured the rich elite, while providing the bulk of population with only limited access to economic opportunities, are fundamental reasons for the persistence of high inequality and a big underclass<sup>15</sup>. The failure of the median voter theorem shows that the rich minority can put into effect policies not wanted by the majority through legitimate democratic processes. The rich can assure the implementation of policies benefiting them by influencing public opinion through media, which they control/own, corruption and bribe – especially its legalized form called lobbying, financing politicians and political parties, and the members of the political elite are regularly recruited from the rich.

#### 4 Conclusion

Latin America has the world’s biggest disparities in income and wealth and the indigenous population is the most disadvantaged segment of the society. In fact, indigenous people probably represent the best example of the underclass. Still, in order to understand the position of the indigenous people, measures of poverty more suitable to the values of indigenous people need to be found. After centuries of neglect from the state, indigenous people have started to organize and seek more political participation in their effort to join the middle class. The obstacles they face are numerous. Markets sometimes function in an anti-poor way, which was illustrated by capital market imperfections. Thus, the state needs to step in and provide better access to credit for the poor. Furthermore, many Latin American countries are still agrarian societies with high land inequality. Thus, as land ownership is an important determinant in life success, struggle over land ownership is very common. The Chiapas Rebellion, for example, names more equal land distribution as one of its demands. Since the poor have no assets to buy the land it is clear that the state will again need to step in. Two models are possible. One more moderate, e.g. in Chile, where the state buys land and then gives it to the poor indigenous people and one more radical, e.g. in Venezuela, where the Chavez government is expropriating unused land. Both approaches have their pros and cons. It is likely that the Venezuelan approach will generate

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<sup>14</sup> World Bank (2003) finds that taxes generally have little redistributive effect in Latin America because of their high dependence on indirect taxes.

<sup>15</sup> In fact, Mexican independence was inspired by elites’ desires to prevent liberalizing policies that were introduced by Spain (ECLAC, 2001).

insecurity and harm the investment climate but it is also more likely to achieve a more equal distribution of land, and sooner.

Attempts to ensure more universal health and education services should be made in order to improve health and education indicators. In addition, targeting of social services needs to be improved and also, following the East Asian example, more efforts should be put into expanding secondary education.

Increasing social rights will require an increase in government spending. But, with regressive tax systems being mostly the rule in Latin America, this would mean that the poor are expected to finance the services they require, which is an oxymoron. If the poor had these resources they would not need to go to the state, they could simply buy these “social rights” on the market. Thus, efforts should be made in order to make the tax system more progressive. But, political system and institutions in Latin America are very rich-biased, which makes pro-poor policies even harder to implement. Therefore, it will be very interesting to see what the results are of the very leftist and pro-poor Lula government in Brazil and the Chavez government in Venezuela.

The indigenous people are not just an interesting case study per se. Rather, their example shows the obstacles less privileged groups of society face in their efforts to move to the middle class. Understanding the problems of indigenous people will help each society to understand the problems of its own underclass and also our understanding of appropriate solutions to the problems of the lower groups of the society.

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